

MACKINAC COUNTY HOUSING COMMISSION
MACKINAC COUNTY, MICHIGAN

FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
AND
REPORTS ON INTERNAL CONTROL AND
COMPLIANCE

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <i>Macomb County Housing Commission</i>	County <i>Macomb</i>
Audit Date <i>6/30/04</i>	Opinion Date <i>10/29/04</i>	Date Accountant Report Submitted to State: <i>11/29/04</i>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <i>Barry E. Gaudette, CPA PC</i>			
Street Address <i>1107 E. 8th Street</i>	City <i>Warren City</i>	State <i>MI</i>	ZIP <i>48096</i>
Accountant Signature <i>Barry E. Gaudette</i>			

MACKINAC COUNTY HOUSING COMMISSION
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INTRODUCTION

Barry E. Gaudette, CPA, P.C.

CERTIFIED PUBLIC ACCOUNTANT

1107 East Eighth Street
Traverse City, Michigan 49686
(231) 946-8930
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Independent Auditor's Report

Board of Commissioners
Mackinac County Housing Commission
Mackinac County, Michigan

We have audited the accompanying statements of net assets of the Mackinac County Housing Commission, Michigan (a component unit of the County of Mackinac) as of June 30, 2004, and the related statements of revenues, expenses, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Housing Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Mackinac County Housing Commission, Michigan, as of June 30, 2004, and the results of its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2004 on our consideration of Mackinac County Housing Commission, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Mackinac County Housing Commission
Independent Auditor's Report
Page Two

Management's Discussion and Analysis is not a required part of the financial statements, but is supplementary information the Government Accounting Standards Board requires. We applied limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion thereon.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Financial Data Schedule is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Housing Commission. The accompanying Schedule of Expenditures of Federal Awards, is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Bary E. Landette, CPA, PC

October 28, 2004

MACKINAC COUNTY HOUSING COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
June 30, 2004
=====

The Mackinac County Housing Commission, created in 1970, by the County of Mackinac, provides housing to meet the community's needs for affordable low-income housing. As management of the Housing Commission, we offer readers this narrative overview and analysis of the financial activities of the Housing Commission for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with the Housing Commission's financial statements.

Financial Highlights

The financial statements for Mackinac County Housing Commission consists of two programs. The first is owned housing, consisting of 48 units of public housing and the second is the capital funding program. Mackinac County Housing Commission had total revenues of \$219,338 that includes \$87,521 in rental payments and \$119,580 in federal assistance. Total operating expenses were \$321,385, that includes \$95,703 in administrative expenses, \$62,240 in ordinary maintenance expenses, and \$117,246 in depreciation expense.

The assets of the Housing Commission exceeded its liabilities at the close of the most recent year by \$1,780,135. The Housing Commission's total net assets decreased by \$102,047 from the prior year. The decrease is attributable in part to the depreciation expense.

Total assets of the Housing Commission were \$1,814,881 including \$126,817 of current assets and \$1,688,064 of net property, plant, and equipment assets. The Housing Commission had current liabilities of \$26,963.

Overview of the Financial Statements

The financial statements included in this annual report are those of a special-purpose government engaged only in a business-type activity. The following statements are included:

- * Statement of Net Assets - reports on the Housing Commission's current financial resources with capital and other assets and other liabilities.
- * Statement of Revenues, Expenses, and Changes in Fund Net Assets - reports the Housing Commission's operating and non-operating revenues, by major source along with operating and non-operating expenses and capital contributions.
- * Statement of Cash Flows - reports the Housing Commission's cash flows from operating, investing, capital, and non-capital activities.

MACKINAC COUNTY HOUSING COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
(CONTINUED)
June 30, 2004
=====

Financial Analysis of the Housing Commission

The following combined condensed balance sheets show a summary of changes for the years ended June 30, 2004 and 2003.

	<u>2004</u>	<u>2003</u>	<u>Net Change</u>
Current assets	\$ 126,817	\$ 130,726	\$(3,909)
Property and equipment	<u>1,688,064</u>	<u>1,793,691</u>	<u>(105,627)</u>
Total assets	<u>\$1,814,881</u>	<u>\$1,924,417</u>	<u>\$(109,536)</u>
Current liabilities	\$ 26,963	\$ 34,724	\$(7,761)
Noncurrent liabilities	<u>7,783</u>	<u>7,511</u>	<u>272</u>
Total liabilities	<u>34,746</u>	<u>42,235</u>	<u>(7,489)</u>
Net assets:			
Invested in capital assets	1,688,064	1,609,888	78,176
Unrestricted net assets	<u>92,071</u>	<u>272,294</u>	<u>(180,223)</u>
Total net assets	<u>1,780,135</u>	<u>1,882,182</u>	<u>(102,047)</u>
Total liabilities and net assets	<u>\$1,814,881</u>	<u>\$1,924,417</u>	<u>\$(109,536)</u>

MACKINAC COUNTY HOUSING COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
 (CONTINUED)
 June 30, 2004

=====

Financial Analysis of the Housing Commission (continued)

The following table summarizes the Statement of Revenues, Expenses and Changes in Net Assets of the Housing Commission for the years ended June 30, 2004 and 2003.

	<u>2004</u>	<u>2003</u>	<u>Net Change</u>
Operating revenues:			
Dwelling rent	\$ 87,521	\$ 93,687	\$(6,166)
Nondwelling rent	<u>6,773</u>	<u>6,576</u>	<u>197</u>
Total operating revenues	<u>94,294</u>	<u>100,263</u>	<u>(5,969)</u>
Operating expenses:			
Administration	95,703	89,991	5,712
Utilities	23,183	18,823	4,360
Ordinary maintenance and operation	62,240	54,557	7,683
General expenses	18,525	18,623	(98)
Extraordinary maintenance	4,488		4,488
Depreciation	<u>117,246</u>	<u>109,258</u>	<u>7,988</u>
Total operating expenses	<u>321,385</u>	<u>291,252</u>	<u>30,133</u>
Operating income(loss)	<u>(227,091)</u>	<u>(190,989)</u>	<u>(36,102)</u>
Non-operating revenue (expense):			
Interest income	2,305	4,431	(2,126)
Operating grants	114,199	133,387	(19,188)
Capital grants	5,381	8,210	(2,829)
Other income	2,913	3,238	(325)
Gain/(loss) on sale of assets	<u>246</u>	<u>(639)</u>	<u>885</u>
Total nonoperating revenue (expense)	<u>125,044</u>	<u>148,627</u>	<u>(23,583)</u>
Change in Net Assets	<u><u>\$(102,047)</u></u>	<u><u>\$(42,362)</u></u>	<u><u>\$(59,685)</u></u>

FINANCIAL STATEMENTS

MACKINAC COUNTY HOUSING COMMISSION
COMBINED STATEMENT OF NET ASSETS
June 30, 2004
=====

ASSETS

Current Assets:

Cash	\$ 73,268
Accounts receivable-tenants	3,742
Allowance for doubtful accounts	(1,067)
Accrued interest receivable	69
Investments-unrestricted	40,318
Prepaid expenses	<u>10,487</u>

Total Current Assets	<u>126,817</u>
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Property, Plant, and Equipment:

Land	37,818
Buildings	2,641,262
Equipment	115,954
Building improvements	<u>824,432</u>

	3,619,466
Less: accumulated depreciation	<u>(1,931,402)</u>

Net Property, Plant, and Equipment	<u>1,688,064</u>
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Total Assets	<u><u>\$ 1,814,881</u></u>
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See notes to financial statements

MACKINAC COUNTY HOUSING COMMISSION
COMBINED STATEMENT OF NET ASSETS (CONTINUED)
June 30, 2004
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LIABILITIES and NET ASSETS

Current Liabilities:	
Accounts payable	\$ 12,321
Tenant security deposit liability	4,427
Accrued expenses	10,159
Deferred revenues	<u>56</u>
Total Current Liabilities	26,963
Noncurrent Liabilities:	
Accrued compensated absences	<u>7,783</u>
Total Liabilities	<u>34,746</u>
Net Assets:	
Invested in capital assets	1,688,064
Unrestricted net assets	<u>92,071</u>
Total Net Assets	<u>1,780,135</u>
Total Liabilities and Net Assets	<u>\$ 1,814,881</u>

See notes to financial statements

MACKINAC COUNTY HOUSING COMMISSION
**COMBINED STATEMENT OF REVENUE, EXPENSES AND
 CHANGES IN NET ASSETS**
 Year Ended June 30, 2004

=====

OPERATING REVENUES:

Dwelling rent	\$ 87,521
Non-dwelling rent	<u>6,773</u>
 Total operating revenues	 <u>94,294</u>

OPERATING EXPENSES:

Administration	95,703
Utilities	23,183
Ordinary maintenance and operation	62,240
General expenses	18,525
Extraordinary maintenance	4,488
Depreciation	<u>117,246</u>
 Total operating expenses	 <u>321,385</u>

Operating income(loss)	<u>(227,091)</u>
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NONOPERATING REVENUES AND (EXPENSES):

Investment interest income	2,305
Other income	2,913
Gain/loss on sale of fixed assets	246
Operating grants	114,199
Capital grants	<u>5,381</u>

Total nonoperating revenues(expenses)	<u>125,044</u>
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Net income(loss)	(102,047)
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Net assets, beginning	<u>1,882,182</u>
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Net assets, ending	<u>\$ 1,780,135</u>
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See notes to financial statements

MACKINAC COUNTY HOUSING COMMISSION
COMBINED STATEMENT OF CASH FLOWS
Year Ended June 30, 2004
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Cash flows from operating activities:

Operating(loss)	\$(227,091)
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:	
Depreciation	117,246
Bad debt allowance adjustment	(188)
Changes in assets and liabilities:	
(increase) decrease in assets:	
Accounts receivable-HUD	2,137
Accounts receivable-tenants	(1,091)
Prepaid expenses	1,868
Due from other funds	2,137
Increase (decrease) in liabilities:	
Accounts payable-operations	(4,201)
Accrued wage/payroll taxes	594
Accrued compensated absences	(266)
Accounts payable-PILOT	(1,036)
Tenant security deposits	(394)
Deferred revenues	(49)
Due to other funds	(2,137)
Net cash (used in) operating activities	<u>(112,471)</u>

**Cash flows from noncapital
financing activities:**

Operating grants	114,199
Other revenue	<u>3,068</u>
Net cash provided by noncapital financing activities	<u>117,267</u>

**Cash flows from capital and related financing
activities:**

Capital grants	5,381
Gain/loss on sale of fixed assets	246
Payments for capital acquisitions	<u>(11,619)</u>
Net cash (used in) capital and related financing activities	<u>(5,992)</u>

MACKINAC COUNTY HOUSING COMMISSION
COMBINED STATEMENT OF CASH FLOWS (CONTINUED)
Year Ended June 30, 2004
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Cash flows from investing activities:

Certificates of deposits purchased	(27,331)
Receipts of interest and dividends	<u>2,499</u>

Net cash (used in) investing activities	<u>(24,832)</u>
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Net increase(decrease) in cash	(26,028)
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Cash, beginning	<u>99,296</u>
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Cash, ending	<u><u>\$ 73,268</u></u>
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Reconciliation of cash and cash equivalents per statement of cash flows to the balance sheet:

Cash	\$ 73,268
Restricted cash	<u> </u>

Cash and cash equivalents per balance sheet	<u><u>\$ 73,268</u></u>
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See notes to financial statements

MACKINAC COUNTY HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Reporting Entity

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the Mackinac County Housing Commission. The Mackinac County Housing Commission is a component unit of County of Mackinac, a Michigan County. The Housing Commission is a Public Housing Agency created by County of Mackinac on August 11, 1970, consisting of a five member board appointed by the County Board and charged with the responsibility to provide and service housing to meet the community's needs for affordable low-income housing. These financial statements include all of the resources and activities of the Mackinac County Housing Commission over which the Housing Commission exercises operational control or which have financial significance to the Housing Commission.

Grants and Other Intergovernmental Revenues

The Housing Commission has entered into contracts with the U.S. Department of Housing and Urban Development (HUD). Under Contract C-8046, the Housing Commission constructed, maintains and operates 48 units of subsidized housing in the County of Mackinac, Michigan.

Fund Accounting

The accounts of the Housing Commission are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, equity, revenues, and expenses. The Housing Commission's fund structure includes only proprietary funds. Under generally accepted accounting principles, proprietary funds are grouped into two broad categories - enterprise and internal service funds. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered through user charges; or (b) where laws or regulations require that the activity's costs of providing services including capital costs (such as depreciation or debt service) be recovered with fees and charges rather than with taxes and similar revenues. All of the Housing Commission's funds are operated as enterprise type proprietary funds whereby costs of services are to be recovered through user charges or subsidies from other governmental units.

MACKINAC COUNTY HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004
=====

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus. The Housing Commission's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Under the economic resources measurement focus, all assets and all liabilities (whether current or noncurrent) are included in the statement of net assets of the individual funds. Their reported net assets are segregated into invested capital assets and unrestricted net assets components. Operating statements present increases (revenues) and decreases (expenses) in net assets.

Under the accrual basis of accounting, all revenues are recorded when earned, regardless of when received, and all expenses are recorded when a liability is created, regardless of when paid.

In accordance with Governmental Accounting Standards Board Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the County of Mackinac has elected to apply only those Financial Accounting Standards Board Statements issued prior to November 30, 1989 to its proprietary funds and to the proprietary funds of its component units.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Housing Commission considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Insurance

The premiums on all major insurance policies are charged to prepaid insurance and amortized over the life of the policy.

Budgets and Budgetary Accounting

The Housing Commission is required under each of its HUD contracts to adopt an annual operating budget which must be approved by HUD. Budgetary data and comparison of actual and planned performance is reported directly to HUD based on specific program reporting requirements.

MACKINAC COUNTY HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004
=====

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Receivables

All receivables are reported at their net value, reflecting where appropriate, by the estimated portion that is expected to be uncollectible. The Housing Commission estimates the uncollectible portion of tenant rents as a percentage of gross tenant rents using prior collection experience.

Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds. Receivables and payables arising from these transactions are classified as "due from other funds" and "due to other funds" on the statement of net assets.

Fixed Asset Capitalization

Fixed assets with a cost to acquire or construct of \$200 or more are capitalized and depreciated over their estimated useful lives. Depreciation is provided on a straight-line basis using the following estimate of useful lives:

Buildings	40 years
Furniture, equipment and machinery	5 - 10 years
Leasehold improvements	10 years

Net Assets

The Housing Commission classifies its net assets as follows:

- a. Invested in capital assets represents pre-2001 contributions from grants, HUD notes, and other aids for capital acquisitions and improvements.
- b. Unrestricted net assets indicate that portion of net assets which is available for use in future periods.

Operating Revenues and Expenses

The Housing Commission includes in operating revenues resources that are derived or received from exchange transactions. Resources derived principally from non-exchange transactions are excluded from operating income. Operating expenses include the cost of providing services, excluding depreciation. Depreciation, amount expended for capital additions and amounts expended for retirement-of-debt are excluded from operating expenses. Depreciation

MACKINAC COUNTY HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004
=====

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Operating Expenses and Revenues (continued)

expense is charged to invested in capital assets rather than unrestricted net assets.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of management estimates. The Housing Commission uses estimates of useful lives of its fixed assets and other estimates in preparing its financial statements. Actual results may differ from the Housing Commission's estimates.

Vacation and Sick Leave

The Housing Commission allows full-time and part-time employees to accumulate the following compensated absences:

- * Vacation leave, an employee shall not accumulate more than one hundred seventy-five (175) hours of vacation time. The employees will be paid for all accumulated annual leave upon termination of employment or in the event of death to the married survivor of the deceased if applicable, otherwise to the estate of the deceased.
months of employment.
- * Sick leave, an employee who separates from the Housing Commission employment for retirement purposes approved by Municipal Employees' Retirement Systems shall be paid one-half (1/2) of his/her unused sick leave as of the effective date of separation.

Payment of unused sick leave days shall be at the employee's prevailing rate of pay and the payment of one half (1/2) of accumulated leave days shall be based on a maximum possible accumulated of six hundred thirty (630) hours provided said employee has earned said hours.

- * Personal leave, each employee, after completing six (6) months of service, shall be allowed personal leave. Full-time employees will be allowed twenty-one (21) hours and part-time employees will be allowed ten and one half (10 1/2) hours. After completing three (3) years, full-time employees will be allowed twenty-eight (28) hours and part-time employees will be allowed fourteen (14) hours. Time to be

MACKINAC COUNTY HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004
=====

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Vacation and Sick Leave (continued)

* Personal leave continued:

taken with three days advance notice given to the department head except in cases of extreme emergency.

The amount of accumulated benefits at June 30, 2004, was \$11,823, and is recorded as a liability in the applicable funds.

Post Employment Benefits

The provision for pension cost is recorded on an accrual basis, and the Commission's policy is to fund pension costs as they accrue.

Income Taxes

As a component unit of a Michigan home rule city, the Housing Commission is exempt from federal and state income taxes. The Housing Commission has no unrelated business income.

NOTE 2: CASH AND INVESTMENTS

The Housing Commission maintains cash and investment accounts in the Low Rent Program.

HUD authorizes the Housing Commission to invest in certificates of deposit, money-market funds, United States government securities, and repurchase agreements fully collateralized by United States government securities.

The Housing Commission's investments are categorized below to give an indication of the level of risk assumed by the entity at year end.

Category 1: Includes deposits that are insured, registered, or for which the collateral securities are held by the Housing Commission or its agent in the Housing Commission's name. This includes FDIC or equivalent insurance coverage.

MACKINAC COUNTY HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004
=====

NOTE 2: CASH AND INVESTMENTS (Continued)

Category 2: Includes deposits for which the collateral securities are held by the dealer's trust department or agent in the Housing Commission's name.

Category 3: Includes all uninsured and uncollateralized deposits.

For all deposits shown below, the market value at the balance sheet date is substantially the same as the carrying value. The difference between the bank balance and carrying value is due to outstanding checks and/or deposits in transit. At various times during the year, the Housing Commission's deposits may have been higher than the June 30, 2004, balances detailed below. This means that the Housing Commission's risk and exposure could have been higher at these times. The Housing Commission had no significant type of deposits during the year not included below.

<u>Depository Balances by Category</u>					<u>Carrying Value</u>
<u>Depository</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>Total</u>	
State Savings Bank	\$101,110	\$	\$	\$ 101,110	\$ 100,422
First National Bank	<u>13,164</u>			<u>13,164</u>	<u>13,164</u>
Total Deposits	<u>\$114,274</u>	<u>\$</u>	<u>\$</u>	<u>\$ 114,274</u>	<u>\$ 113,586</u>

Reconciliation to Cash on Balance Sheet

Cash	\$ 73,268
Investments-unrestricted	<u>40,318</u>
Total	<u>\$ 113,586</u>

NOTE 3: RECEIVABLES AND PAYABLES

Tenant Accounts Receivable

Tenant accounts receivable are recorded at gross amount and reduced by the estimated amount uncollectible. At June 30, 2004, the receivables were \$3,742 with \$1,067 estimated as uncollectible. Bad debt expense was \$907.

MACKINAC COUNTY HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004
=====

NOTE 3: RECEIVABLES AND PAYABLES (Continued)

Accounts Receivables - HUD

Amounts due from HUD represents funding due the Housing Commission for actual expenses for the programs financed. Balances at June 30, 2004 were as follows:

Low Rent Program	\$	-
Capital Fund Program		<u>-</u>
 Total		 <u><u>\$ -</u></u>

Inter-fund Receivables, Payables, and Transfers

Interfund receivables and payables are recorded as "due from other programs" and "due to other programs".

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
Low Rent Program	<u>\$ -</u>	Capital Fund Program	<u>\$ -</u>

Individual fund operating transfers during the fiscal year are as follows:

<u>Receiving Fund</u>	<u>Paying Fund</u>	<u>Amount</u>
Low Rent Program	Capital Fund Program	<u>\$ 50,680</u>

MACKINAC COUNTY HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004
=====

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2004 was as follows:

	<u>Balance</u> <u>06/30/03</u>	<u>Additions/Retirements/</u> <u>Transfers</u>	<u>Transfers</u>	<u>Balance</u> <u>06/30/04</u>
Low Rent Program				
Land	\$ 37,818	\$	\$	\$ 37,818
Buildings	2,636,189	6,222	1,149	2,641,262
Furniture, equip. & machinery - dwellings	54,327			54,327
Furniture, equip. & machinery - administration	61,457	170		61,627
Building improvements	<u>810,842</u>			<u>810,842</u>
	3,600,633	<u>\$ 6,392</u>	<u>\$ 1,149</u>	3,605,876
Less accumulated depreciation	(<u>1,815,152</u>)	<u>\$ (116,340)</u>	<u>\$ 996</u>	(<u>1,930,496</u>)
Total	<u>\$1,785,481</u>			<u>\$1,675,380</u>

Capital Fund Program

	<u>Balance</u> <u>06/30/03</u>	<u>Additions/Retirements/</u> <u>Transfers</u>	<u>Transfers</u>	<u>Balance</u> <u>06/30/04</u>
Building improvements	\$	\$ 13,590	\$	\$ 13,590
Construction in progress	<u>8,210</u>		<u>8,210</u>	
	8,210	<u>\$ 13,590</u>	<u>\$ 8,210</u>	13,590
Less accumulated depreciation		<u>\$ (906)</u>		(<u>906</u>)
Total	<u>\$ 8,210</u>			<u>\$ 12,684</u>

MACKINAC COUNTY HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004

=====

NOTE 5: INVESTED IN CAPITAL ASSETS

The following is a summary of the activity in the Invested in Capital Assets account:

	<u>Invested in Capital Assets</u>
Balance, beginning	\$ 1,609,888
Adjustment	<u>65,492</u>
Balance, ending	<u>\$ 1,675,380</u>

NOTE 6: POST EMPLOYMENT BENEFITS

The Housing Commission agreed to continue to participate in the County of Mackinac pension plan, the Municipal Employees' Retirement System, (MERS) effective January 1, 1980. MERS is a Defined Contribution Program which operates within the Michigan Department and Budget, Bureau of Retirement Systems.

Effective January 1, 1997, the Employer shall implement the B-4 Pension Plan with the V-6, E-1 and E-2 Riders. The Employer agrees to pay the cost of the retirement system, including the employee's share subject to the conditions set forth below.

Commencing upon the execution of the collective bargaining agreement, appropriate employees in the bargaining unit will be covered with the Municipal Employees Retirement Systems 55-F Waiver with twenty-five (25) years of service on a contributory basis as provided below:

Commencing upon the execution of this agreement and until December 31, 2001, the Housing Commission will pay the cost of the waiver.

Commencing upon January 1, 2002 the Housing Commission will pay the cost of the 55-F waiver, subject to the limitations set forth below.

Effective on January 1, 2002, the Employer will pay no more than sixteen and 1/2 percent (16.5%) of the total cost of the retirement system, including the cost of the 55-F waiver. Any total cost over sixteen and 1/2 percent (16.5%) including the cost of the 55-F waiver shall be paid for by the employee through payroll deduction. The Employer agrees to, upon written request by the Union, to meet and discuss methods of reducing

MACKINAC COUNTY HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004
=====

NOTE 6: POST EMPLOYMENT BENEFITS (Continued)

retirement system costs for this unit if, and only if, the cost of the retirement system exceeds 16.5%.

For employee's hired on or after July 1, 2001, appropriate employees in the bargaining unit will be covered exclusively by the Municipal Employees Retirement Systems defined contribution program. Under this program, the Employer will initially contribute 4% of the employees salary to the Program. Thereafter, if an employee elects to contribute 3% of the employee's salary to the Program, the Housing Commission will contribute for those employee's who make such election an additional 3% of the employee's salary to the Program.

During the fiscal year ended June 30, 2004, the Housing Commission contributed \$11,067 to the pension plan.

NOTE 7: CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

The Housing Commission operates in a heavily regulated environment. The operations of the Housing Commission are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice to inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

NOTE 8: RISK MANAGEMENT AND LITIGATION

The Housing Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters for which it obtains coverage from commercial companies. The Housing Commission has had no settled claims resulting from these risks that exceed their commercial coverage in the current year or the three prior fiscal years.

MACKINAC COUNTY HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2004
=====

NOTE 9: SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The Housing Commission maintains three Enterprise Funds which provide housing assistance and grant programs. Segment information for the year ended June 30, 2004, was as follows:

	Low Rent Program	Capital Fund Program
Operating revenues	\$ 94,294	\$
Operating expenses	320,479	906
Operating (loss)	(226,185)	(906)
Depreciation	116,340	906
Operating grants	63,520	50,679
Capital grants		5,381
Operating transfers	50,680	(50,680)
Other income	2,913	
Net income (loss)	(106,521)	4,474
Plant, property, and equipment:		
Additions	6,392	13,590
Deletions	1,149	8,210
Working capital	99,854	
Total assets	1,802,197	12,684
Change in net assets	(106,521)	4,474
Beginning net assets	1,873,972	8,210
Ending net assets	1,767,451	12,684

**NOTE 10: PRIOR PERIOD ADJUSTMENTS, EQUITY TRANSFERS AND
CORRECTION OF ERRORS**

There were no prior period adjustments, equity transfers or correction of errors.

SUPPLEMENTARY INFORMATION

MACKINAC COUNTY HOUSING COMMISSION
COMBINING STATEMENT OF NET ASSETS
 June 30, 2004

=====

C-8046	Capital
Low Rent	Fund
Program	Program
<u>14.850</u>	<u>14.872</u>

ASSETS

Current assets:

Cash	\$ 73,268	\$
Accounts receivable-tenant	3,742	
Allowance for doubtful accounts	(1,067)	
Accrued interest receivable	69	
Investments-unrestricted	40,318	
Prepaid expenses	<u>10,487</u>	
Total current assets	<u>126,817</u>	

Property, plant, and equipment:

Land	37,818	
Buildings	2,641,262	
Equipment	115,954	
Building improvements	<u>810,842</u>	<u>13,590</u>
	3,605,876	13,590
Less accumulated depreciation	<u>(1,930,496)</u>	<u>(906)</u>

Net property, plant and equipment	<u>1,675,380</u>	<u>12,684</u>
Total Assets	<u>\$1,802,197</u>	<u>\$ 12,684</u>

Totals

\$ 73,268
3,742
(1,067)
69
40,318
10,487
126,817

37,818
2,641,262
115,954
824,432
3,619,466
(1,931,402)

1,688,064

\$ 1,814,881

MACKINAC COUNTY HOUSING COMMISSION
COMBINING STATEMENT OF NET ASSETS (CONTINUED)
 June 30, 2004

=====

	C-8046 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
LIABILITIES and NET ASSETS		
Current liabilities:		
Accounts payable	\$ 12,321	\$
Tenant security deposit liability	4,427	
Accrued expenses	10,159	
Deferred revenues	<u>56</u>	
Total current liabilities	<u>26,963</u>	
Noncurrent liabilities:		
Accrued compensated absences	<u>7,783</u>	
Total noncurrent liabilities	<u>7,783</u>	
Total liabilities	<u>34,746</u>	
Net assets:		
Invested in capital assets	1,675,380	12,684
Unrestricted net assets	<u>92,071</u>	
Total net assets	<u>1,767,451</u>	<u>12,684</u>
Total Liabilities and Net Assets	<u>\$1,802,197</u>	<u>\$ 12,684</u>

Totals

\$ 12,321
4,427
10,159
56

26,963

7,783

7,783

34,746

1,688,064
92,071

1,780,135

\$ 1,814,881

MACKINAC COUNTY HOUSING COMMISSION
**COMBINING STATEMENT OF REVENUE, EXPENSES AND
 CHANGES IN NET ASSETS**
 Year Ended June 30, 2004

=====

	C-8046 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
OPERATING REVENUES:		
Dwelling rent	\$ 87,521	\$
Nondwelling rent	<u>6,773</u>	<u></u>
Total operating revenues	<u>94,294</u>	<u></u>
OPERATING EXPENSES:		
Administration	95,703	
Utilities	23,183	
Ordinary maintenance and operation	62,240	
General expenses	18,525	
Extraordinary maintenance	4,488	
Depreciation	<u>116,340</u>	<u>906</u>
Total operating expenses	<u>320,479</u>	<u>906</u>
Operating income(loss)	<u>(226,185)</u>	<u>(906)</u>
NONOPERATING REVENUES AND (EXPENSES):		
Investment interest income	2,305	
Other income	2,913	
Gain/loss on sale of fixed assets	246	
Operating grants	63,520	50,679
Capital grants		5,381
Operating transfers in (out)	<u>50,680</u>	<u>(50,680)</u>
Total nonoperating revenues (expenses)	<u>119,664</u>	<u>5,380</u>
Net income(loss)	<u>(106,521)</u>	<u>4,474</u>
Net assets, beginning	<u>1,873,972</u>	<u>8,210</u>
Net assets, ending	<u><u>\$1,767,451</u></u>	<u><u>\$ 12,684</u></u>

<u>Totals</u>	
\$	87,521
	<u>6,773</u>
	<u>94,294</u>

	95,703
	23,183
	62,240
	18,525
	4,488
	<u>117,246</u>
	<u>321,385</u>
(<u>227,091)</u>

	2,305
	2,913
	246
	114,199
	5,381
	<u>125,044</u>
(<u>102,047)</u>
	<u>1,882,182</u>
\$	<u>1,780,135</u>

MACKINAC COUNTY HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS
 Year Ended June 30, 2004
 =====

	C-8046 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
Cash flows from operating activities:		
Operating(loss)	\$(226,185)	\$(906)
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:		
Depreciation	116,340	906
Bad debt allowance adjustment	(188)	
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable-HUD		2,137
Accounts receivable-tenants	(1,091)	
Prepaid expenses	1,868	
Due from other funds	2,137	
Increase (decrease) in liabilities:		
Accounts payable-operations	(4,201)	
Accrued wage/payroll taxes	594	
Accrued compensated absences	(266)	
Accounts payable-PILOT	(1,036)	
Tenant security deposits	(394)	
Deferred revenues	(49)	
Due to other funds	<u> </u>	<u>(2,137)</u>
Net cash (used in) operating activities	<u>(112,471)</u>	<u> </u>
Cash flows from noncapital financing activities:		
Operating grants	63,520	50,679
Operating transfers in (out)	50,680	(50,680)
Other revenue	<u>3,068</u>	<u> </u>
Net cash provided by(used in) noncapital financing activities	<u>117,268</u>	<u>(1)</u>
Cash flows from capital and related financing activities:		
Capital grants		5,381
Gain/loss on sale of fixed assets	246	
Payments for capital acquisitions	<u>(6,239)</u>	<u>(5,380)</u>
Net cash provided by (used in) capital and related financing activities	<u>(5,993)</u>	<u>1</u>

Totals

\$ (227,091)

117,246
(188)

2,137
(1,091)
1,868
2,137

(4,201)
594

(266)

(1,036)

(394)

(49)

(2,137)

(112,471)

114,199

3,068

117,267

5,381
246
(11,619)

(5,992)

MACKINAC COUNTY HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS (CONTINUED)
Year Ended June 30, 2004
=====

	C-8046 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
Cash flows from investing activities:		
Certificates of deposits purchased	(27,331)	
Receipts of interest and dividends	<u>2,499</u>	
Net cash provided by investing activities	<u>(24,832)</u>	
Net increase(decrease) in cash	(26,028)	
Cash, beginning	<u>99,296</u>	
Cash, ending	<u><u>\$ 73,268</u></u>	<u><u>\$</u></u>

Reconciliation of cash and cash equivalents per statement of cash flows to the balance sheet:

Cash	\$ 73,268	\$
Restricted cash	<u></u>	<u></u>
Cash and cash equivalents per balance sheet	<u><u>\$ 73,268</u></u>	<u><u>\$</u></u>

Totals

(27,331)
2,499

(24,832)

(26,028)

99,296

\$ 73,268

\$ 73,268

\$ 73,268

MACKINAC COUNTY HOUSING COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND NOTES TO THE SCHEDULE OF FEDERAL AWARDS
Year Ended June 30, 2004
=====

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

<u>Fiscal</u> <u>Year</u>	<u>Federal Grantor</u>	<u>CFDA No.</u>	<u>Expenditures</u>
	<u>U.S. Department of HUD</u>		
	<u>Public and Indian Housing</u> <u>Nonmajor - Direct Program</u>		
2004	Low Rent Public Housing	14.850	\$ 63,520
	<u>Public and Indian Housing</u> <u>Nonmajor - Direct Program</u>		
2004	Capital Fund Program	14.872	<u>56,060</u>
	Total		<u>\$ 119,580</u>

NOTES TO THE SCHEDULE OF FEDERAL AWARDS

NOTE 1: Significant Accounting Policies

The schedule of federal awards has been prepared on the
accrual basis of accounting.

CFDA = Catalog of Federal Domestic Assistance

MACKINAC COUNTY HOUSING COMMISSION

FINANCIAL DATA SCHEDULE

Year Ended June 30, 2004

=====

FDS Line Item No.		C-8046 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	ASSETS		
	Current Assets:		
	Cash:		
111	Cash-unrestricted	\$ 73,268	\$
100	Total cash	<u>73,268</u>	
	Receivables:		
126	A/R-tenants-dwelling rents	3,742	
126.1	Allowance for doubtful accounts-dwelling rents	(1,067)	
129	Accrued interest receivable	<u>69</u>	
120	Total receivables, net of allowance for doubtful accounts	<u>2,744</u>	
	Current Investments:		
131	Investments-unrestricted	<u>40,318</u>	
	Other Current Assets:		
142	Prepaid expenses and other assets	<u>10,487</u>	
150	Total current assets	<u>126,817</u>	
	Noncurrent Assets:		
	Fixed Assets:		
161	Land	37,818	
162	Buildings	2,641,262	
163	Furn, equip & mach-dwellings	54,327	
164	Furn, equip & mach-admin.	61,627	
165	Building improvements	810,842	13,590
166	Accumulated depreciation	<u>(1,930,496)</u>	<u>(906)</u>
160	Total fixed assets, net of accumulated depreciation	<u>1,675,380</u>	<u>12,684</u>
180	Total noncurrent assets	<u>1,675,380</u>	<u>12,684</u>
190	Total Assets	<u>\$1,802,197</u>	<u>\$ 12,684</u>

Totals

\$ 73,268

73,268

3,742

(1,067)

69

2,744

40,318

10,487

126,817

37,818

2,641,262

54,327

61,627

824,432

(1,931,402)

1,688,064

1,688,064

\$ 1,814,881

MACKINAC COUNTY HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
 Year Ended June 30, 2004
 =====

FDS Line Item No.		C-8046 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
LIABILITIES AND EQUITY/NET ASSETS			
	Liabilities:		
	Current Liabilities:		
312	Accounts payable<=90 days	\$ 5,871	\$
321	Accrued wage/payroll taxes payable	6,119	
322	Accrued compensated absences	4,040	
333	Accounts payable-other government	6,450	
341	Tenant security deposits	4,427	
342	Deferred revenues	<u>56</u>	
310	Total current liabilities	<u>26,963</u>	
	Noncurrent Liabilities:		
354	Accrued compensated absences	<u>7,783</u>	
350	Total noncurrent liabilities	<u>7,783</u>	
300	Total liabilities	<u>34,746</u>	
	Equity:		
508.1	Invested in capital assets	<u>1,675,380</u>	<u>12,684</u>
508	Total equity	1,675,380	12,684
	Net Assets:		
512.1	Unrestricted net assets	<u>92,071</u>	
513	Total net assets	<u>1,767,451</u>	<u>12,684</u>
600	Total Liabilities and Equity/Net Assets	<u>\$1,802,197</u>	<u>\$ 12,684</u>

Totals

\$ 5,871

6,119

4,040

6,450

4,427

56

26,963

7,783

7,783

34,746

1,688,064

1,688,064

92,071

1,780,135

\$ 1,814,881

MACKINAC COUNTY HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
Year Ended June 30, 2004

=====

FDS Line Item No.		C-8046 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	Revenue:		
703	Net tenant rental revenue	\$ 87,521	\$
704	Tenant revenue-other	<u>6,773</u>	<u> </u>
705	Total tenant revenue	94,294	
706	HUD PHA grants	63,520	50,679
706.1	Capital grants		5,381
711	Investment income-unrestricted	2,305	
715	Other revenue	2,913	
716	Gain/loss on sale of fixed assets	<u>246</u>	<u> </u>
700	Total revenue	<u>163,278</u>	<u>56,060</u>
	Expenses:		
	Administrative:		
911	Administrative salaries	58,504	
912	Auditing fees	1,450	
914	Compensated absences	(267)	
915	Employee benefit contributions-adm.	24,596	
916	Other operating-administrative	11,420	
	Utilities:		
932	Electricity	6,438	
933	Gas	3,278	
938	Other utilities expense	13,467	
	Ordinary maintenance and operation:		
941	Ordinary maint & oper-labor	23,937	
942	Ordinary maint & oper-mat'ls & other	5,892	
943	Ordinary maint & oper-contract costs	26,262	
945	Employee benefit contributions- ordinary maintenance	6,149	
	General expenses:		
961	Insurance premiums	11,168	
963	Payments in lieu of taxes	6,450	
964	Bad debt-tenant rents	<u>907</u>	<u> </u>
969	Total operating expenses	<u>199,651</u>	<u> </u>
970	Excess operating revenue over operating expenses	<u>(36,373)</u>	<u>56,060</u>

<u>Totals</u>	
\$	87,521
	<u>6,773</u>
	94,294
	114,199
	5,381
	2,305
	2,913
	<u>246</u>
	<u>219,338</u>

	58,504
	1,450
(267)
	24,596
	11,420

	6,438
	3,278
	13,467

	23,937
	5,892
	26,262

	6,149
--	-------

	11,168
	6,450
	<u>907</u>

	<u>199,651</u>
--	----------------

	<u>19,687</u>
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MACKINAC COUNTY HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)

Year Ended June 30, 2004

=====

FDS Line Item No.		C-8046 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	Expenses continued:		
	Other expenses:		
971	Extraordinary maintenance	4,488	
974	Depreciation expense	<u>116,340</u>	<u>906</u>
	Total other expenses	<u>120,828</u>	<u>906</u>
900	Total expenses	<u>320,479</u>	<u>906</u>
	Excess (deficiency) of operating revenue over (under) expenses before other financing sources (uses)	(157,201)	55,154
	Other Financing Sources (Uses):		
1001	Operating transfers in (out)	<u>50,680</u>	<u>(50,680)</u>
1000	Excess (deficiency) of operating revenue over (under) expenses	(106,521)	4,474
1103	Beginning Net Assets	<u>1,873,972</u>	<u>8,210</u>
	Ending Net Assets	<u>\$ 1,767,451</u>	<u>\$ 12,684</u>

Totals

4,488
117,246

121,734

321,385

(102,047)

(102,047)

1,882,182

\$ 1,780,135

Barry E. Gaudette, CPA, P.C.

CERTIFIED PUBLIC ACCOUNTANT

1107 East Eighth Street
Traverse City, Michigan 49686
(231) 946-8930
Fax (231) 946-1377

**Report on Compliance and on Internal Control Over
Financial Reporting Based on an Audit of
Financial Statements Performed in Accordance
with Government Auditing Standards**

Board of Housing Commissioners
Mackinac County Housing Commission
Mackinac County, Michigan

We have audited the financial statements of the Mackinac County Housing Commission, Michigan, (Housing Commission) as of and for the year ended June 30, 2004, and have issued our report thereon dated October 28, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Housing Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Housing Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk

Report on Compliance and on Internal Control
In Accordance with Government Auditing Standard
Mackinac County Housing Commission
Page Two

Internal Control Over Financial Reporting - Continued

that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. We have noted other matters involving the internal control over financial reporting that we have reported to management of the Housing Commission in a separate letter dated October 28, 2004.

This report is intended solely for the information and use of the audit committee, Board of Housing Commissioners, management, others within the organization, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Sam E. Sandell, CPA

October 28, 2004

MACKINAC COUNTY HOUSING COMMISSION

INDEPENDENT AUDITORS' REPORTS
ON COMMUNICATIONS WITH THE
AUDIT COMMITTEE/BOARD OF COMMISSIONERS
AND
MANAGEMENT ADVISORY COMMENTS

JUNE 30, 2004

MACKINAC COUNTY HOUSING COMMISSION
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JUNE 30, 2004

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Adjusting Journal Entries	5

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**INDEPENDENT AUDITORS' REPORT ON
COMMUNICATIONS WITH THE AUDIT COMMITTEE/
BOARD OF COMMISSIONERS**

To the Board of Commissioners
Mackinac County Housing Commission

We have audited the financial statements of the Mackinac County Housing Commission ("Housing Commission") as of and for the year ended June 30, 2004, and have issued our report, thereon, dated October 28, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we communicate certain matters to your audit committee or its equivalent. These communications are reported in the following paragraphs.

Auditors' Responsibilities Under Auditing Standards Generally Accepted in the United States of America - In planning and performing our audit of the financial statements, we considered your internal control in order to determine our auditing procedures for purposes of expressing our opinion on the financial statements and not to provide assurance on your internal control. Also, an audit conducted under auditing standards generally accepted in the United States of America is designed to obtain a reasonable, rather than absolute, assurance about the financial statements.

Significant Accounting Policies - The significant accounting policies used in the preparation of your financial statements are discussed in Note 1 to the financial statements. There were no audit adjusting journal entries and no controversial accounting issues.

Management Judgments and Accounting Estimates - Significant management judgments and accounting estimates are disclosed in the notes to the financial statements.

Other Information in Documents Containing Audited Financial Statements - All the information included in the financial statements document has been audited and our responsibilities are addressed in the Independent Auditors' Report.

**INDEPENDENT AUDITORS' REPORT ON COMMUNICATIONS WITH THE
AUDIT COMMITTEE - CONTINUED**

Audit Adjustments - For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Housing Commission's financial reporting process (that is, cause future financial statements to be materially misstated). The attached audit adjustments, in our judgment, indicate matters that could have a significant effect on the Housing Commission's financial reporting process (see page 5 showing the audit adjusting journal entries).

Disagreements With Management - For purposes of this letter, professional accounting standards define disagreement with management as a matter concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the audit.

Consultations With Other Accountants - To our knowledge, management has not consulted with other accountants regarding auditing and accounting matters.

Major Issues Discussed With Management Prior to Retention - There was no discussions regarding the application of accounting principles or auditing standards with management prior to our retention as your auditor.

Difficulties Encountered in Performing the Audit - There were no difficulties encountered in performing the audit. The staff was very cooperative and helpful.

This report is intended solely for the information and use of the audit committee or its equivalent and management and is not intended to be and should not be used by anyone other than these specified parties.

We shall be pleased to discuss any of the matters referred to in this letter. Should you desire more information on the above communications, we would welcome the opportunity to discuss them with you.

Barry E. Landolt, CPA, PC

October 28, 2004

Barry E. Gaudette, CPA, P.C.

CERTIFIED PUBLIC ACCOUNTANT

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Traverse City, Michigan 49686
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**INDEPENDENT AUDITORS' REPORT ON
MANAGEMENT ADVISORY COMMENTS**

To the Board of Commissioners
Mackinac County Housing Commission

We have audited the financial statements of the Mackinac County Housing Commission ("Housing Commission") as of and for the year ended June 30, 2004, and have issued our report, thereon, dated October 28, 2004. We have also issued compliance reports and reports on the internal control in accordance with *Government Auditing Standards*. These reports disclosed no material instances of noncompliance, weaknesses and reportable conditions.

Other matters involving the Housing Commission's operations and internal control, which came to our attention during the audit, are reported on the following pages as management advisory comments.

We would like to take this opportunity to acknowledge the many courtesies extended to us by the Housing Commission's personnel during the course of our work.

We shall be pleased to discuss any of the matters referred to in this letter. Should you desire assistance in implementing any of the following suggestions, we would welcome the opportunity of assisting you in these matters.

Barry E. Gaudette, CPA, P.C.

October 28, 2004

MACKINAC COUNTY HOUSING COMMISSION
MANAGEMENT ADVISORY COMMENTS

June 30, 2004

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Cash Collections

Tenants currently can pay their rents by cash, check or money order.

We recommend that the Housing Commission consider not allowing payments by cash. This would provide another internal control in the collection of assets.

Social Security Number Requirements

The Housing Commission does not always make a copy of the tenants social security card.

Who is required to report:

CFR 5.216(a)(1) states that all family members age six and over who have a Social Security number are required to disclose it and provide verifying documentation as a condition of initial or continuing eligibility under HUD programs. CFR 5.216(a)(2) states that is a family member who is at least six years old does not have a Social Security number, the individual must sign a certification that he or she does not have one. CFR 5.21(g)(5) states that the individual has 60 days from the date of certification to obtain documentation to verify the SSN disclosed, and individuals at least 62 years of age may be granted an additional 60-day extension.

Penalties For Failure to Disclose or Verify SSNs/EINs:

Applicants: denial of assistance

Participants: termination of assistance

MACKINAC COUNTY HOUSING COMMISSION
ADJUSTING JOURNAL ENTRIES
June 30, 2004

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<u>Account #</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>
LOW RENT PROGRAM			

There are no audit adjusting journal entries.